



## Incongruities in Machinery Insurance

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The conceptual difference, in their very rudiments, between the fire insurance and the machinery insurance that is available only as a sequel to the former, though independent of it, is this: whereas in case of fire insurance, the scope of cover is limited, ab initio, to the perils specified in the policy, the position in respect of machinery insurance is that 'unforeseen and sudden physical damage by any cause - an omnibus proposition - not hereinafter excluded' is deemed as the perils covered. Thus, whereas the fire insurance is finite in its scope of liability, the machinery insurance is one of an infinite obligation, of indemnity, though limited by specific exclusions and exceptions.

The liberality of spirit combined with the ambiguity in exceptions enshrined in the policy give rise to many incongruities in machinery insurance. To begin with, unlike in fire insurance, selective objectification is

admitted in that the insured can exercise his option in choosing the subject(s) to insure that is even amongst the same objects in situ. This proposition entails discrimination by the proposer in his own favour, and against the insurers, resulting in the phenomenon of only bad apples failing in the hapless lap of machinery insurance.

Moreover, as we should see; the general exceptions are no less inimical to the health of the machinery insurance.

### ***Exception 1***

Fire damage to the insured machinery is not covered under the machinery insurance but just the same it is a risk covered under the fire policy, which anyway is a precursor to the former.

However, any damage by fire within the electrical appliance that is excluded in fire policy, though, is covered under the machinery insurance. It is in this context that it is worth noting that loss due to fire arising from or occasioned by over running, excessive pressure short circuiting, arcing, self-heating or leaking of electricity from whatever cause is covered under the fire policy.

Given that every eclectically or otherwise powered machine or equipment is designed within certain operational and maintenance parameters, this fire policy exception is truly exceptional in that it enables the insured to ignore the same, by the grace of the policy, with impunity, though to the detriment of the machinery insurance.

Thus, there is a need for the incorporation of a 'maintenance, overhaul and operation warranty' in the machinery insurance policy, wherein the insured may be called upon to adhere to the manufacturers' recommendations in respect of the maintenance, overhauling and operation of the machinery, and maintain a record of the same for scrutiny in the event of a claim.

### ***Exception 3***

Accident, loss, damage and or liability resulting from overload experiments or tests requiring imposition of abnormal conditions, though is excluded from the scope of the machinery insurance policy, it implies that operation of the insured machinery under abnormal conditions as such is not prohibited so long as the loss or damage does not result in its immediate wake as a consequence of it.

Hence, no cognizance is taken of the fact that under abnormal operational conditions the machinery may develop unusual fatigue resulting in its premature breakdown later, which may pass the muster as a sudden physical damage! This exception thus needs to be modified to prohibit imposition of any abnormal conditions on the machinery at any point of time, not necessarily only during the policy period, but in its entire life cycle, for such an abuse affects its health, not only in the short term but also in the long run.

### ***Exception 4***

The spirit behind the exception of 'gradually developing flaws, defects, cracks, or partial fractures in any part not necessitating immediate stoppage although at some future time repair or renewal of the parts affected may be necessary' from exclusion gets belied if the insured, on noticing a gradually developing flaw in the machine and being aware of the untenability of the

claim as such, chooses to operate the machinery till the logical breakdown occurs.

The type of defects envisaged as above normally come to light during the periodic overhaul but in practice very rarely, if ever, machinery is subjected to preventive maintenance schedules. In most cases, however, owing to the backbreaking production schedules coupled with the paucity of or prohibitive cost of spare parts, the machinery is run with superficial maintenance, resulting in avoidable breakdowns. It is here that the machinery insurance is stepping in to come to the rescue of, so to say, machinery abusers.

In order to ensure that there is proper upkeep of the machinery, the time between overhauls, depending on the nature of the machine, operating conditions and such as recommended by the equipment manufacturer has to be stipulated in the policy and in case of noncompliance, the claim should be repudiated. So as to verify that the warranty to maintain is complied with, the insured should be required to intimate the schedule of overhaul in advance to the insurers so that they can arrange the presence of say an insurance surveyor when it is undertaken and certify that the same was actually done in all earnestness.

#### ***Exception 5***

Deterioration of, or wearing away or wearing out of any machine caused by or naturally resulting from normal use or exposure is an exclusion under the machinery insurance, which in effect ensures that those parts of the machinery that get worn out due to friction are not brought under the scope of the policy. Apart from these, there may be some parts in a machine that are rotating, moving or vibrating, which, in due course, are subject to fatigue, as different from wear and tear, that ultimately leads to their breakdown, but just the same, it gets attributed to sudden physical damage, the loss of which is indemnified under the policy.

To bring the fatigue factor in breakdowns into the reckoning of machinery insurance, a fatigue table based on the age or hours run or both may be developed for all machinery, indicating the percentage of depreciation to be applied. This only can make machinery insurance more even keeled than as is at present.

**That's not all for there are inimical inclusions that hurt the machinery insurance.**

The incongruities continue to plague the machinery insurance on shop floors in insured factory sheds in other ways too. As can be imagined, to derive the benefits that standardization affords, industrial enterprises normally opt for equipment of the same capacity, model, and make, wherever practicable, in the process lines or in allied plants in their units. This phenomenon combined with the insured's selectivity prerogative could spell trouble for underwrites on the machinery insurance front. By way of an example, there may be ten electrical motors of the same capacity of a given make, and suppose the insured obtains insurance cover for only five of them, it only takes a screwdriver to replace the nameplate of the damaged but uninsured motor with that of an insured description, to get the claim kicking, without either the surveyor or the insurer becoming wiser about that.

The above, however, is only illustratively representative for the common features, in various forms, may prevail in different industries that may offer scope for foul play to protect against which, the insurers may take recourse to the system of imprinting distinctive marks on the body and other accessible parts of the insured machinery with the help of metallic seals.

For the purists, who insist that the contract of insurance should be based on the classical dictum of 'uberrima fides' i.e. utmost good faith, the propositions put forth as above may appear scandalous in nature but it would be a case of naivety if one were unable to comprehend the fact that much water, even that of the Thames had flowed down the business bridges from the time of 'uberrima fides' to the current credo of one-upmanship for every business penny. Misplaced faith is as much a malady as congenital mistrust in the affairs of life as well as in business.

Thus as discussed above, there are many incongruities in the machinery insurance under the existing policy, and there is an urgent need to review the situation and come up with appropriate measures to rectify the same. Maybe it's high time the insured's privilege to selectively insure his machinery is withdrawn and the risk in the fire policy is aligned with that of the machinery insurance policy.